The Lebanese Car Market: Radical Shifts amidst Tough Economic Climate

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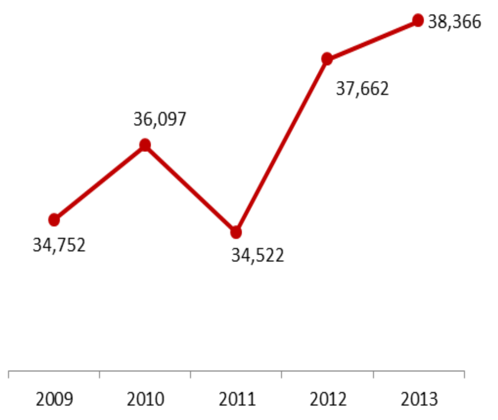
Car Importers and Market Shares

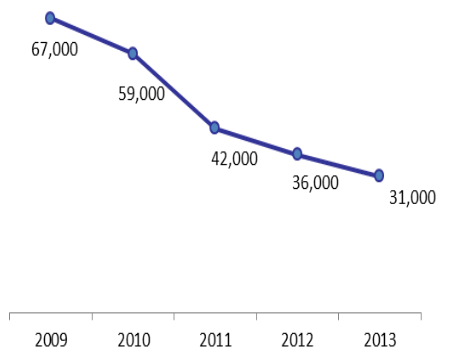
Importer	Brand	Market Share in 2012	Market Share in 2013
NATCO	Kia	25.18%	24.27%
Century Motor Co	Hyundai	17.65%	18.31%
RYMCO	Nissan, GMC, Infiniti, Lotus, Renault	16.60%	14.18%
Bassoul Heneine	Alfa Romeo, BMW, Dacia, Mini, Renault	8.35%	6.91%
BUMC	Toyota, Lexus	5.88%	6.90%

New Cars Registration



Source: Association des Importateurs d'Automobiles au Liban

Used Cars Registration



The trend of the car market in Lebanon, just like everywhere else in the world, is inextricably linked to consumer behavior and to the economic, political and social context of the country. Unfortunately, internal conflicts in parallel with the regional uproars weighed heavily on the Lebanese economy.

Indeed, consumer confidence and purchasing power were both weakened. ARA Research and Consultancy noted that the Consumer Confidence Index (CCI) dipped from 108 points in December 2011 to 66 points in December

2013. As for the IMF's estimates, the growth of the GDP/capita will ease from an annual 4.6% in 2012 to 3.85% in 2013.

Inevitably, the "cost-factor" climbed all the way to the top of the customer's priorities list. According to KPMG's Global Automotive Executive Survey 2013, the majority of the survey's participants based their vehicle purchase decisions primarily on financial factors, with 92% naming fuel efficiency as the number one buying criteria. Moreover, 82% of respondents noted that finance is the most important value added service, up from only 60% in 2012's survey.

In 2013, the Lebanese car demand pattern tipped over from favoritism of luxury brands to domination of cost-friendly models. The price-tag on filling up a car tank with regular gas rose by more than 60% since 2009 which explains why small, cheap and fuel-efficient cars invaded the market. This change is predictable in a country where a precarious economy paired with poor public transport networks compel citizens to rely solely on automobiles.

According to the Association des Importateurs d'Automobiles au Liban (AIA), the total number of registered new and imported used cars has dropped by 6% during 2013 in comparison with 2012, by 9.5% in comparison with 2011 and by 27% in comparison with 2010 (meaning from 92,500 cars in 2010 to 67,500 cars in 2013).

A detailed breakdown of the market offers further understanding of the broad picture. Over the past five years, the share of used cars in the overall market consistently narrowed from 66% to 45%. The psychological need to own a German car (used or not) has been overtaken by the need to own a car that is fuel-efficient, offers low maintenance costs and that has a low price-tag. This drift in preferences is corroborated by the drop in ARA's Expected Personal Income Index from 81 points in December 2011 to 52 points in December 2013.

Therefore, the market for new cars now represents more than half of the overall market. Registration of new passenger and commercial cars reached 38,366 in 2013, higher than 37,662 in 2012. In fact, the number of registered new passenger vehicles increased by 1.78% y-o-y to 36,109 while that of commercial cars edged up by 3.30% y-o-y to 2,257.

However, the increase in the number and market share of new car sales masks a decline in the importers' sales turnover and profit margins. RYMCO, the only distributor publically listed on the Beirut Stock Exchange and grasping the third largest market share of 14.2% in 2013, witnessed a 21% decrease in net sales from $38.34M in Q1 2012 to $30.17M in Q1 2013. RYMCO still managed to post a positive net income due to the fall in the cost of goods sold spurred by the 8.55% depreciation of the Japanese yen from $/JPY 86.79 in January to $/JPY 94.21 in March.

According to AIA President Mr. Samir Homsi, the increase in market share and sales volume is partly the result of heavy marketing campaigns led by new cars distributors. The average budget dedicated to publicity campaigns surged by 20% over the past five years, as car importers, especially those handling luxury brands, struggle to adapt to the new prevailing preferences.

Consumers' preferences are shifting towards cars with low price tags, which explain the higher number of new cars sold combined with lower turnover and profits as the market for small cars id highly competitive and margins are squeezed. Prior to 2009, 65% of sold cars fell in the $22,000-$90,000 price range while in 2013, 90% of sold cars are small ones with an $11,000 price tag. It's fair to say that today, luxury cars are marginalized. As proof, Jaguar's sales fell by 7.78% to 83 vehicles in 2013 and Porsche's sales slid by 3.70% to 286 cars in 2013.

Over the past year, European and American models' market shares declined to the benefit of Asian cars. Sales of American and European vehicles decreased by an annual 11.20% to 1,991 cars and 2.36% to 7,046 cars, respectively. For American models the most pronounced drop in sales was registered by Dodge (-37.15%), GMC (-31.73%) and Chevrolet (-20.59%). As for European models, prominent dips were recorded by BMW (-35.83%), SEAT (-44.34%) Bentley (-25.00%) and Renault (-18.20%). Contrastingly, the sales of Chinese, Japanese and

Korean cars increased compared to 2012 by 63.30% to 761 cars, 5.48% to 10,084 cars and 1.46% to 16,227 cars, respectively.
In terms of market share, Korean cars are still accounting for the largest stake of 44.94% of total car sales in 2013 followed by the Japanese and European vehicles with respective shares of 27.93% and 19.51%. As for the car sales breakdown by brand, it ranked Kia at the top with a 25.78% share in the total, followed by Hyundai (19.11%) and Nissan (13.77%).

Thanks to these top selling brands, the top five distributors in Lebanon since year start according to their market share were respectively: NATCO SAL (24.27%), Century Motor Co (18.31%), RYMCO (14.18%), Bassoul Heneine (6.91%) and BUMC (6.90%).

Rental services, just like sale services, also had a tough year. Rental companies ordered 4,079 cars in 2013 compared to 4,137 in 2012, especially as tourist arrivals dropped by 7.3% y-o-y by the month of November.

The decline in the number and value of imported cars is also negatively affecting government revenues. The government collects revenues from cars at imports, in the form of customs duties and VAT. Upon car sale, a registration fee is collected and the yearly road usage fee or "mecanique" is collected on a yearly basis.

Awaiting the Ministry of Finance's (MoF) car-related revenues for 2013, the trend in the past two years is not so reassuring. While the car-related revenues' share in total revenues rose consistently from 11% in 2007 to 19% in 2010, it dropped and stabilized at 12% for both 2011 and 2012. It is highly likely that the state's revenues, which are a function of the car's price, will drop in 2013 since the average price per imported car fell from $14,793 in November 2012 to $14,262 in the same month this year.

The road-usage fees suffer from poorly implemented regulations: According to the AIA study, out of 1,300,000 registered cars in 2011, only 800,000 cars have paid the mechanical tax. The remaining 500,000 cars that have not paid the Mechanical Tax in 2011 represent a yearly loss of $56M. This loss will surely be inflated once the number of cars circulating with expired temporary admission plate numbers, which pay no fees to the government whatsoever, is taken into account. Tax revenue losses stemming from non-registered cars in circulation were also estimated at $70M in 2011 by the AIA.

As for custom duties, they are set at 20% for cars valued at $13,270 and 50% for cars valued at more than $13,270. Registration fees represent 7% of the selling price while VAT is set at 10%. As the car fleet is dominated by low price tag cars, the bulk of state revenues (i.e: Customs and registration fees as they are linked to the car's price and value) will come from the low-end segment.

The government's car-related revenues might also be affected by a draft law suggesting an increase in VAT from 10% to 15% as a way to finance the ever-controversial wage bill. A study conducted by the AIA, reveals the rippling effects of such a measure. While the government believes that the tax hike will generate $50-$60M of additional tax revenues, AIA experts argue that it will narrow the tax base and lead to a 30% drop in car sales and tax revenues. If the law goes into effect, total tax revenues from the car segment are estimated to sink by $122M in 2013.

In addition to all of the above mentioned challenges faced by the car market, the regulations currently in place are contributing to the ageing of the car fleet and are thus increasing its environmental hazards. As the law allows the import of vehicles that are up to 8 years old, by end 2012, on a total of 1,368,000 Private and Public Registered Cars: 87% are more than 7 years old while 73.7% are more than 11 years old, according to the AIA. However, awareness towards the negative environmental externalities of cars remains widely underdeveloped in Lebanon.

As the ageing car fleet continues to grow, the Lebanese infrastructure on the other hand hasn't witnessed any modernization efforts for a long time now. This has many harming effects on the environment, overall health and traffic congestion. These hurdles ought to urge Lebanese decision makers to explore new options for greener and more efficient transportation.

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